



ECONOMY OF ICELAND

Contents

- 5 *Introduction*
- 7 *1 Country and people*
- 13 *2 Structure of the economy*
 - Boxes:*
 - The individual transferable quota system 18
 - Sectoral limitations on foreign direct investment 19
- 33 *3 Financial system*
- 45 *4 Public sector*
 - Box:*
 - The tax system 50
 - Iceland's fiscal framework 57
- 59 *5 Monetary and financial stability policies*
 - Box:*
 - Imposition and liberalisation of capital controls 2008-2017 57
- 67 *6 Ten years later – Iceland's crisis and recovery*
- 81 *Appendix*

Published by:

The Central Bank of Iceland, Kalkofnsvegur 1,
150 Reykjavík, Iceland

Tel: (+354) 569 9600, fax: (+354) 569 9605

E-mail: sedlabanki@sedlabanki.is

Website: www.sedlabanki.is

September 2018

Printing: ODDI ehf.

Economy of Iceland is also published on the Central Bank of Iceland website.

ISSN 1024-6680

Material may be reproduced from *Economy of Iceland*, but an acknowledgement of source is kindly requested.

In *Economy of Iceland*, monetary figures are generally presented in euros; however, in certain instances, amounts are expressed in US dollars. The amount in Icelandic krónur is included in parentheses, as most figures are originally in krónur. Stocks at the end of the period are calculated using the period-end exchange rate, whereas flows are calculated using the average exchange rate for the period. The analysis presented is based on data available in mid-September and/or August 2018.

Icelandic letters:

ð/Ð (pronounced like *th* in English *this*)

þ/Þ (pronounced like *th* in English *think*)

Symbols:

- * Preliminary or estimated data.
- 0 Less than half of the unit used.
- Nil.
- ... Not available.
- . Not applicable.

Republic of Iceland

People

| | |
|-----------------|--|
| Population | 348.450 (1 January, 2018) |
| Capital | Reykjavík, population 126.041 (1 January, 2018) |
| Language | Icelandic; belongs to the Nordic group of Germanic languages |
| Main religion | Evangelical Lutheran (67.2%) |
| Life expectancy | Females: 84 years, Males: 81 years |

Governmental system

| | |
|---------------|--|
| Government | Constitutional republic |
| Suffrage | Universal, over 18 years of age; proportional representation |
| Legislature | Althingi with 63 members |
| Election term | Four years, last election 28 October 2017 |

Economy

| | |
|------------------------|--|
| Monetary unit | Króna (plural: krónur); currency code: ISK |
| Gross domestic product | €21.7 billion (2.615,220 billion krónur, US\$ 24.5 billion) in 2017 |
| International trade | Exports of goods and services 46% and imports of goods and services 42% of GDP in 2017 |
| Per capita GDP | €47.8 thousand in 2017 (5.8 million krónur, US\$ 54 thousand in terms of PPP) |

Land

| | |
|-------------------------|---|
| Geographic size | 103,000 sq.km. (39,768 sq.m.) |
| Highest point | 2,110 m. (6,923 ft) |
| Exclusive economic zone | 200 nautical miles (758,000sq.km. / 292,680 sq.m.) |
| Climate | Cool temperate oceanic; highly changeable, influenced by the warm Gulf Stream and Arctic currents |

Republic of Iceland credit ratings

| | <i>Affirmed</i> | <i>Foreign currency</i> | | <i>Domestic currency</i> | | <i>Outlook</i> |
|-------------------|-----------------|-------------------------|-------------------|--------------------------|-------------------|----------------|
| | | <i>Long-term</i> | <i>Short-term</i> | <i>Long-term</i> | <i>Short-term</i> | |
| Moody's | July 2018 | A3 | ... | A3 | ... | Positive |
| Standard & Poor's | June 2018 | A | A-1 | A | A-1 | Stable |
| Fitch | June 2018 | A | F1 | A | F1 | Stable |

Central Bank of Iceland publications in English

Annual Report
Monetary Bulletin
Financial Stability
Economy of Iceland
Economic Affairs
Informational Reports
Special Publications
Central Bank of Iceland *Working Papers*

These publications are available on the Central Bank website. Also available on the website are regularly updated Central Bank statistics and *Economic Indicators*, a snapshot of the Icelandic economy in charts and tables.

Useful websites

| | |
|---------------------------------------|--|
| Central Bank of Iceland | www.sedlabanki.is |
| Parliament of Iceland (Althingi) | www.althingi.is |
| Government of Iceland | www.government.is |
| Statistics Iceland | www.statice.is |
| OMX Nordic Exchange in Iceland | www.nasdaqomx.com |
| Government Debt Management | www.bonds.is |
| Trade Council of Iceland | www.icetrade.is |
| National Association of Pension Funds | www.ll.is |
| Invest in Iceland Agency | www.invest.is |
| Financial Supervisory Authority | www.fme.is |
| The Official Gateway to Iceland | www.iceland.is |



Introduction

Economy of Iceland has been published by the Central Bank of Iceland since 1987. It is mainly intended for an international readership. This includes international institutions that deal with Icelandic economic matters on a regular basis, rating agencies, financial institutions, foreign investors, embassies and, more generally, everyone who is interested in the Icelandic economy. We also hope that Icelandic readers will find this survey useful. It is published every other year. This publication focuses on the structure of the Icelandic economy. It is intended to serve as background material for understanding the evolution of the economy, but it does not provide a detailed account of recent developments. A more up-to-date analysis of recent developments and prospects is provided in the Central Bank's *Monetary Bulletin* and *Financial Stability* reports. The Bank's *Annual Report* describes the Central Bank of Iceland's general activities during the year.

The outline of this booklet is as follows: Chapter 1 presents basic facts about Icelandic geography, population, and society. Chapter 2 deals with the structure of the economy. It discusses size and income levels, the composition of GDP, foreign trade, main economic sectors, the labour market, and the Icelandic pension system. It also presents Iceland's net international investment position and describes changes in foreign direct investment. Finally, it discusses corporate and household balance sheets. Chapter 3 provides an account of the financial system, including Iceland's bond, equity, and foreign exchange markets. Chapter 4 surveys the public sector, including division of tasks, central and local government finances, expenditure structure, the tax system, and the government balance sheet. Chapter 5 describes the frameworks for monetary policy and financial stability. It explains the objective of monetary policy, its main instruments, and the role of the Monetary Policy Committee. It also elaborates on financial stability policy and the Central Bank's role in promoting an efficient and stable financial system. Chapter 6 gives an overview of the main changes that have taken place in Iceland over the ten years since the financial crisis, as regards the economic situation, financial system, and institutional framework. A number of tables are provided in an appendix.

We are constantly making efforts to improve this publication, and we would be grateful for any comments and suggestions that might increase the usefulness of this booklet. If you feel that important information is missing and should be added, or if you see other scope for improvement, please e-mail your suggestions to: sedlabanki@sedlabanki.is.

